

VZCZCXRO4916
RR RUEHLMC
DE RUEHMU #0303/01 0782350
ZNY CCCCC ZZH
R 192350Z MAR 09
FM AMEMBASSY MANAGUA
TO RUEHZA/WHA CENTRAL AMERICAN COLLECTIVE
INFO RUEHLMC/MILLENNIUM CHALLENGE CORP WASHDC
RUCPDO/DEPT OF COMMERCE WASHINGTON DC
RUEATRS/DEPT OF TREASURY WASHINGTON DC
RHEHNSC/NSC WASHINGTON DC
RUMIAAA/CDR USSOUTHCOM MIAMI FL
RHEFDIA/DIA WASHINGTON DC
RUEAIIA/CIA WASHDC

C O N F I D E N T I A L SECTION 01 OF 02 MANAGUA 000303

SIPDIS

STATE FOR WHA/CEN, WHA/EPSC AND EEB
TREASURY FOR SARA SENICH
USDOC FOR 4332/ITA/MAC/WH/MSIEGELMAN

E.O. 12958: DECL: 03/18/2019
TAGS: [ECON](#) [EFIN](#) [ETRD](#) [PGOV](#) [PREL](#) [NU](#)
SUBJECT: NICARAGUA'S TAX COLLECTING REGIME

Classified By: CDA Richard M. Sanders for reasons 1.4 b & d.

¶1. (C) Summary. Nicaragua's income taxpayer base, despite impressive growth in collections during recent years, remains at less than 2% of the population. Very few Nicaraguans file income tax returns, but all are subject to the 15% Value Added Tax (IVA). Only 360 companies pay 90% of total income tax revenues collected. President Ortega's appointee since 2007, Walter Porras, who runs the Nicaraguan Tax Administration (DGI), has managed to politicize the agency in two short years. Under his leadership, DGI has engaged in targeted audits against known supporters of the opposition, assessed arbitrary fines, and pressed employees to turn out at FSLN (Sandinista National Liberation Front) rallies. DGI has transformed itself from a transparent, client-based service to one that intimidates and instills fear among its largest and most conscientious taxpayers. End Summary.

TAX REVENUES GROW, BUT FROM A SMALL BASE

¶2. (C) The estimated total number of taxpayers (individuals and businesses) in Nicaragua who pay income tax to the National Tax Administration (DGI) is approximately 110,000, a figure which represents less than 2% of the population. Of these taxpayers, the DGI collects 90% of its revenues from just 360 "large taxpayers," mainly in the Managua metropolitan area. These individuals and businesses represent the top-tier of the Nicaraguan private sector, ranging from the Pellas family's sugar, rum and auto dealership empire to transnational corporations. While the non-filing rate among all income taxpayers hovers around 33 percent, 98 percent of the "large taxpayers" do file. DGI maintains and staffs a separate "Large Collections Unit" which focuses exclusively on regularly auditing this pool of taxpayers, almost all of which retain fulltime accountants and are well-versed in tax law.

¶3. (C) In 2008, Nicaraguan tax revenues funded about 70% of the national budget, or about \$750 million. About \$350 million came from income taxes, while the rest came from a 15% value-added tax (IVA) levied at points-of-sale, excise taxes (alcohol and tobacco) and petroleum taxes. Since 2005, annual revenues have risen by approximately 75%, a dramatic increase even when offset by 37.5% inflation during this period. A number of advisors and economists have encouraged the government to reduce the level of exemptions granted as investment incentives and political favors. Part of the success that the DGI has experienced in recent years is due to the U.S. Department of Treasury's Office of Technical Assistance, which has conducted training and supervisory programs in both collections and audits for DGI since 2006. These programs are expected to close this year.

DIRECTOR POLITICIZES DGI

¶4. (C) In January 2007, President Ortega named Walter Porras as head of DGI, a relatively unknown FSLN party loyalist who first earned Ortega's confidence as a teacher of English to his children. Prior to being named to the top job at DGI, Porras headed the DGI office in the city of Masaya, about 20 kilometers south of Managua. Upon taking over DGI, Porras promptly fired approximately 700 out of 1,200 DGI employees, often replacing former civil servants with FSLN partisans. He also centralized decision making in the agency, ordered politically motivated audits and approved questionable administrative decisions. One result of the politicization of the DGI is that Nicaraguan businesses are increasingly tight-lipped when it comes to tax disputes lest they provoke unwanted attention.

¶5. (C) Rene Vallecio, former head of DGI under the Bolanos Administration and now a prominent tax consultant, told us that tax examiners rout

¶6. (C) Recently, Porras demonstrated his FSLN credentials by participating in street rallies (dressed in camouflage) to support the Sandinista electoral fraud following the November 2008 municipal elections. By most accounts, he has intimidated DGI employees into participating in pro-FSLN street rallies, turning his office into a logistical headquarters to organize DGI participation in such events. Porras regularly "releases" DGI employees early from official duties ahead of FSLN rallies. Groups of DGI employees are a common sight at major traffic rotundas (roundabouts) in Managua during street protests, most wearing bright yellow shirts sporting pro-FSLN slogans (purchased by DGI employees at their own expense, under pressure from Porras).

COMMENT

¶7. (C) With increased fiscal pressures stemming from the withdrawal of European budget support in the wake of fraudulent municipal elections and the effects of the global financial crisis, we expect that the DGI will increase its efforts to squeeze tax revenues out of the private sector. The fact that only 2% of the population pays income tax demonstrates the huge potential for expanding the country's

tax base. Nonetheless, the top 360 taxpayers, many of whom are known supporters of opposition parties, are easy targets for a politicized DGI. We expect that the government will seek to limit tax exemptions in the future, especially for opponents of the ruling party.

SANDERS